Investigation on the Commission's Own Motion Regarding
Innovative Utility Ratemaking Approaches that Promote Conservation
and Efficiency Programs by Removing Disincentives that Exist
Under Current Ratemaking Policies

05-UI-114

Survey Questions

It has often been suggested that there is a disincentive for gas and electric utilities to aggressively pursue cost effective gas and electric energy efficiency programs because doing so results in an adverse impact to shareholders due to lost revenues. Eliminating this disincentive could make the utility indifferent as to whether it implements such energy efficiency programs or constructs new utility facilities. Decoupling, one such tool to accomplish this, would make the utility whole for lost revenues resulting from these programs. Another tool, and one that could be used in tandem with decoupling, is providing some type of a performance incentive. The objective of this docket is to explore ways to maximize investment in cost effective energy efficiency at a reasonable cost to ratepayers without harming utility shareholders. To assist the Commission in this effort, please respond to the following questions.

1. Do the current rate structures of the electric and gas utilities in Wisconsin contain a net lost revenue and profit effect that is significant enough to discourage these utilities from developing and spending additional[i] money on energy efficiency programs?

2. (Question for utilities) Is your utility likely to propose energy efficiency spending above current levels if any disincentive to do so is removed?

3. If disincentives are removed and the utility elects to spend higher than current amounts on energy efficiency is it best for (a) the utility to develop and implement the programs; (b) should that be done by Focus on Energy; (c) should it be done through a combination of the utility and Focus on Energy; or (d) should it be done by some other entity?

4. Do utilities currently have the resources to develop and implement additional energy efficiency programs?

5. Should a decoupling mechanism consider only the effects of additional energy efficiency spending or should it also include the effects of other factors such as the economy and weather on actual vs. forecasted sales? If yes, please explain why.

6. If you answered yes to Question #5, should it be necessary for a utility to propose additional energy efficiency spending before it could seek recovery of any lost revenues due to other factors?

7. If a decoupling mechanism considers only the effects of additional energy efficiency spending, but due to weather, economic, or other factors the overall sales are equal to or greater than forecast, or if due to other factors the utility is either earning its authorized ROE or is within some range of its authorized return, should it still recover lost revenues?

8. Please provide what you believe to be the key components of a decoupling mechanism.

9. Please provide examples of ratemaking mechanisms other than decoupling that could incent utilities to pursue additional energy efficiency spending at a reasonable cost to ratepayers.

10. Should all customer classes be included in any mechanism that is implemented to encourage utilities to promote additional energy efficiency spending? Why or why not?

11. If your answer to Question #9 is no, should additional energy efficiency programs only be designed to benefit only participating customer classes? Why or why not?

12. Do you foresee controversy in determining the amount of reduced kWh sales caused by additional energy efficiency spending and the dollar margin on the reduced sales used to determine the under recovered amount to be included in rates? Why or why not?

13. Considering the lag time between the design and implementation of energy efficiency programs and that utilities file regularly for rate reviews, would the following alternative to decoupling be useful in removing disincentives to utilities promoting these programs? For programs that a utility is proposing prior to a rate case filing an estimate of reduced sales would be made and the test year sales forecast would be reduced accordingly. For programs developed and implemented during the utility's biennial period, a decoupling mechanism could be used to adjust for the impact of these programs until the next rate period (it would be likely that the lag time in implementing programs would make revenue adjustments relatively small).

14. Is revenue decoupling illegal retroactive ratemaking? Why or why not?

15. Are you aware of mechanisms other states use to incent additional energy efficiency on behalf of their utilities that you believe would be successful in Wisconsin? If so, please identify those states?

16. Does a decoupling mechanism represent a reduction in risk to the utility? If so, should that be reflected in the authorized return on equity?

17. What process should the Commission use to establish the parameters of ratemaking approaches that promote energy efficiency; i.e., should the Commission approve utility-specific plans or establish guidelines for implementation in rate cases?

18. Are there important differences between gas and electric utilities to be considered when designing an incentive mechanism?

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[i] The word "additional" is meant to refer to energy efficiency expenditures that are not otherwise required by law or by Commission order.